

**REPORT OF THE AUDIT OF THE
ADAIR COUNTY
CLERK**

**For The Period
December 1, 2006 Through December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ADAIR COUNTY CLERK

**For The Period
December 1, 2006 Through December 31, 2006**

The Auditor of Public Accounts has completed the Adair County Clerk's audit for the period December 1, 2006 through December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

The County Clerk had excess fees of \$10,583 for the period December 1, 2006 through December 31, 2006.

Lease Obligations:

The County Clerk's office was committed to the following lease agreements as of December 31, 2006.

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2006
Copier	\$ 302	36 Months	07/15/09	\$ 8,081
Copier	279	36 Months	08/01/09	9,060

Report Comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Have A Written Security Agreement To Protect Deposits

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive
The Honorable Sheila Blair, Adair County Clerk
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Adair County, Kentucky, for the period December 1, 2006 through December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the period December 1, 2006 through December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Ann Melton, Adair County Judge/Executive
The Honorable Sheila Blair, Adair County Clerk
Members of the Adair County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Have A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Adair County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 1, 2007

ADAIR COUNTY
SHEILA BLAIR, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period December 1, 2006 Through December 31, 2006

Revenues

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 37,633	
Usage Tax	135,506	
Tangible Personal Property Tax	116,219	

Other-

Marriage Licenses	552	
Dog Licenses	30	
Deed Transfer Tax	3,129	
Lien Fees	448	
Delinquent Tax	4,583	\$ 298,100

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	2,059	
Real Estate Mortgages	2,948	
Chattel Mortgages and Financing Statements	4,893	
Powers of Attorney	169	
Bonds	290	
All Other Recordings	2,211	12,570

Other:

Title Applications	570	
Miscellaneous	112	682

Overage/Shortage		801
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Interest Earned		289
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Total Revenues		312,442
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The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
 SHEILA BLAIR, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period December 1, 2006 Through December 31, 2006
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 27,696

Usage Tax 131,441

Tangible Personal Property Tax 39,633

Licenses, Taxes, and Fees-

Delinquent Tax 591

Legal Process Tax 1,393

Affordable Housing 1,884 \$ 202,638

Payments to Fiscal Court:

Tangible Personal Property Tax 9,015

Delinquent Tax 454

Deed Transfer Tax 2,972

Dog Licenses 30 12,471

Payments to Other Districts:

Tangible Personal Property Tax 62,988

Delinquent Tax 2,405 65,393

Payments to Sheriff

40

Payments to County Attorney

676

Operating Expenditures:

Personnel Services-

Deputies' Salaries 10,777

Employee Benefits-

Employer's Share Social Security 1,124

Materials and Supplies-

Office Supplies 60

Other Charges-

Conventions and Travel 564

Office Cleaning 125

Miscellaneous 1,744 14,394

Debt Service:

Lease Purchases 581

Total Expenditures

\$ 296,193

ADAIR COUNTY

SHEILA BLAIR, COUNTY CLERK

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period December 1, 2006 Through December 31, 2006

(Continued)

Net Revenues	\$ 16,249
Less: Statutory Maximum	<u>5,366</u>
Excess Fees	10,883
Less: Expense Allowance	<u>300</u>
Excess Fees Due County for 2006	10,583
Payment to Fiscal Court - February 13, 2007	<u>10,000</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 583</u></u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ADAIK COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.18 percent for December 2006.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or collateralized by bank securities. However, no properly executed collateral security agreement was in place.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Leases

The Clerk's office was committed to the following lease agreements as of December 31, 2006:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2006
Copier	\$ 302	36 Months	07/15/09	\$ 8,081
Copier	279	36 Months	08/01/09	9,060

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive
The Honorable Sheila Blair, Adair County Clerk
Members of the Adair County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Adair County Clerk for the period December 1, 2006 through December 31, 2006, and have issued our report thereon dated June 1, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Adair County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Adair County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Adair County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adair County Clerk's financial statement for the period December 1, 2006 through December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Have A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management, the Adair County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 1, 2007

COMMENTS AND RECOMMENDATIONS

ADAIR COUNTY
SHEILA BLAIR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Period December 1, 2006 Through December 31, 2006

STATE LAWS AND REGULATIONS:

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 31, 2006, the County Clerk had bank deposits of \$138,874; FDIC insurance of \$100,000; and collateral pledged or provided of \$500,000. Even though the County Clerk obtained sufficient collateral of \$500,000, there was no written agreement between the County Clerk and the depository institution, signed by both parties, securing the County Clerk's interest in the collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response: None

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk posts the daily checkout sheet to the receipts ledger, prepares the bank deposit, and takes the deposit to the bank. The County Clerk also prepares, signs checks, and posts items to the disbursements ledger. The County Clerk prepares the quarterly financial reports and performs the monthly bank reconciliations. The control deficiency described above is a significant deficiency and material weakness. Compensating controls would not be effective over duties performed by the County Clerk. The County Clerk should delegate these duties to another employee and implement the compensating controls noted below to offset this internal control weakness.

- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. She could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The County Clerk should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The County Clerk could document this by initialing the quarterly financial report.
- The County Clerk should periodically compare invoices to payments. The County Clerk could document this by initialing the invoices.
- The County Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The County Clerk could document this by initialing the bank reconciliation and the balance in the checkbook.
- Two people, with one being the County Clerk, should sign all checks.

County Clerk's Response: None.